

Natgas strives to join oil as global commodity

PARIS/SAN FRANCISCO, July 8 (Reuters) -

Natural gas, long viewed as the poor cousin to "black gold" in the energy market, is on track to join crude oil and petroleum products as a globally traded commodity, according to analysts and industry watchers.

Where gas is shipped and how it is traded is changing as the United States and Europe move to boost liquefied natural gas (LNG) imports to make up for dwindling output from aging fields amid meet rising demand from gas-fired power plants.

"The United States and Europe offer huge opportunities for LNG growth and these regions will help move the LNG trade to a shorter-term basis," said Bob Nimocks, president of Zeus Development, a Houston-based LNG research firm.

The high cost of handling LNG, highly volatile super-cooled gas shipped on special tankers and later turned back into gas at import terminals, has historically confined its trade to regional hubs such as Asia, the world's biggest LNG market.

Inflexible LNG contracts, often lasting up to 25 years to ensure financiers' investment returns, have also frustrated efforts to trade spare capacity to even out market imbalances, something routinely done in oil markets.

LNG trade has lagged far behind more mature oil markets, with only about 22 percent of the gas consumed globally traded internationally compared with about 50 percent for oil.

SHIPS, OUTPUT TO FILL SUPPLY GAP

But sundry plans for new LNG terminals in Europe and the United States, where demands for flexibility dominate economic behavior, have led analysts to boost their outlooks for the LNG trade.

"The buzzword is flexibility. People want to be flexible in what they buy and where they sell it," said Ira Joseph, director of global LNG at New York-based consultants Pira Energy Group.

Analysts forecast U.S. LNG imports as a percentage of overall gas demand will rise from one percent currently to 10 percent by 2010, while in Europe gas imports are due to soar from 45 percent in 2001 to 70 percent by 2015.

Britain, a big driver behind the LNG boom as it shifts from gas exporter to gas importer, is seen accounting for about 60 percent of European gas imports by the end of the decade.

Meanwhile, the global LNG trade is forecast to grow up to six percent a year over the next 20 years, according to Cedigaz, the Paris-based international gas association. Of that growth, short-term deals of 18 months or less will jump from 1 percent to 15 percent by 2010.

Helping drive the expansion are lower costs, with the price of building LNG terminals down about 30 percent and ships down about 60 percent since the 1990s, analysts said. A big constraint on LNG trade in the past had been a lack of ships.

From a fleet of 141, the number of LNG carriers is set to rise about 40 percent over the next five years -- with all 54 "non-dedicated" ships on order being built for spot trade.

U.S., ASIAN DEMAND CLOUDS FUTURE

But analysts also say LNG trade could be hampered by regional differences in gas "heat-rate," or energy content, and local restrictions on the size of vessels allowed to call at certain ports.

High U.S. prices, which have doubled the past year to about \$6 per million British thermal units, have made the U.S. a target-rich market for LNG producers.

But gas prices of \$6 per mmBtu or higher over the long-run could also choke, prompting power generators and industries to switch to cheaper fuels like petroleum products, or even favor new nuclear or coal-fired power stations.

"The U.S. will require more cargoes ... But a lot depends on the price, which is a real threat to demand if it remains high," said Frank Spadine, a consultant with New York-based Poten and Partners.

Demand in Asia, which provides LNG producers some of the world's highest prices, is also crucial to the spot market's success.

After 18 months of healthy growth, spot LNG trade slumped this quarter, with Japan snapping up nearly all spare shipping and production to cover an energy shortfall after it shut several nuclear power plants, and South Korea as it sought to rebuild gas stocks after a severe winter.

"The spot market is active in so far as there is spare capacity, and that is almost indisputable. Right now it is tight, but the market can bear a lot," said Pira's Joseph.

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